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ANNUAL REPORT 1967

FRONTIER ACCEPTANCE Corporation Limited

FRONTIER ACCEPTANCE Corporation Limited

ANNUAL REPORT

FOR THE YEAR ENDED MARCH 31, 1967

DIRECTORS:	JOHN W. ADAMS Vice-President, Finance and Treasurer; Emco Limited, London, Ontario
	C. NORMAN CHAPMAN Executive Vice-President; Emco Limited, London, Ontario
	MURRAY J. HOWE Partner; J. H. Crang & Co., Investment Dealers, Toronto, Ontario
	CHARLES E. ISARD Director; Isard, Robertson, Easson Co. Limited, Investment Dealers, London, Ontario
	PETER J. IVEY President; Emco Limited, London, Ontario
	LYMAN W. OEHRING, JR. President; Frontier Acceptance Corporation Limited, Willowdale, Ontario
	FRANK T. SHERK Director of Various Corporations; Toronto, Ontario
	DAVID B. WELDON President; Midland-Osler Securities Limited, Investment Dealers, London, Ontario
OFFICERS:	LYMAN W. OEHRING, JR. — President C. NORMAN CHAPMAN — Vice-President HOWARD L. KIRBY — Vice-President JOHN A. PARK — Vice-President ROBERT W. STEVENS — Secretary PETER J. IVEY — Assistant Secretary
LEGAL COUNSEL:	BLAKE, CASSELS & GRAYDON, Toronto, Ontario
AUDITORS:	PEAT, MARWICK, MITCHELL & CO., Toronto, Ontario
BANKERS:	BANK OF MONTREAL, Toronto, Ontario THE ROYAL BANK OF CANADA, Toronto, Ontario
TRANSFER AGENT:	THE ROYAL TRUST COMPANY, Toronto, Ontario
SECURITIES LISTED:	TORONTO STOCK EXCHANGE 6½% cumulative redeemable convertible first preference shares Series A Common shares
TRUSTEE:	MONTREAL TRUST COMPANY, Toronto, Ontario 6¾% Subordinated Sinking Fund Debentures Series A
HEAD OFFICE:	5385 YONGE STREET, Willowdale (Metropolitan Toronto), Ontario
BRANCHES:	5385 YONGE STREET, Willowdale, Ontario 1111 MAIN STREET, Moncton, New Brunswick 110 PLACE CREMAZIE WEST, Montreal, Quebec

Highlights

	1967	1966
Volume of retail instalment notes purchased	$ 6,525,041	$ 8,407,939
Notes receivable:		
Retail	$11,292,742	$11,053,836
Wholesale	996,503	1,282,725
Total notes receivable	$12,289,245	$12,336,561
Unearned finance charges	$ 1,805,029	$ 1,848,510
Percent to retail notes receivable with precomputed interest	17.82%	17.44%
Allowance for possible losses	$ 128,362	$ 121,443
Percent to retail notes receivable	1.14%	1.09%
Capital funds:		
Subordinated debt	$ 3,007,250	$ 3,054,250
Shareholders' equity:		
Preference	$ 384,250	$ 384,250
Common	960,712	842,881
Total shareholders' equity	$ 1,344,962	$ 1,227,131
Total capital funds	$ 4,352,212	$ 4,281,381
Number of common shares outstanding	188,685	188,685
Book value per common share	5.09	4.47
Net earnings	$ 142,807	$ 138,925
Percent to average assets employed	1.34%	1.46%
Preference dividends	$ 24,976	$ 29,387
Times preference dividends earned	5.72	4.73
Net earnings for common shares	$ 117,831	$ 109,538
Percent to common shareholders' equity at beginning of year adjusted for capital changes during year	13.98%	15.96%
Net earnings per common share based on average shares outstanding	.62	.61

To our Shareholders

May 8, 1967

The past year was an even more difficult one for finance companies and business in general than was the year before. Money and credit became even tighter and there are indications that a near money panic was averted only by timely, quiet, calm action by bankers and central banks. The money that was available was going for the highest rates in many people's memory. Recent rate reductions and actions of central banks seem to indicate that, although money is not yet loose, credit accommodations in the near future will be more readily available for worthy borrowers and projects. It is not likely, however, that money will again be as "loose" as it was in the first half of the 1960's since most lenders have come to the realization, some by bitter experience, that no matter how plentiful the supply of lendable funds the credit worthiness of the borrower must be closely examined, and also that no matter how attractive an interest rate may look, it is almost impossible to get one high enough to compensate for loss of principal. Lenders and investors are going to have to examine in much more depth the ability, and possibly of more importance the basic integrity, of management.

Other matters are now coming to the fore and occupying everyone's attention. The investigations into the collapse of Atlantic Acceptance and Prudential Finance are nearing completion. The Carter Commission has proposed a whole new federal tax system. New securities and companies statutes have been enacted in the Province of Ontario and consideration is being given to the passing of similar legislation in other Provinces and at the Federal level. The Lawrence Committee on Company Law has tabled an interim report in the Ontario Legislature calling for more changes. Consumer protection legislation dealing primarily with the disclosure of costs of credit has been enacted, or is being proposed, in most of the Provinces. Federal-Provincial meetings are being held concerning financial institutions and securities regulation. Deposit insurance is now a fact. A new Bank Act has been passed which will free the Chartered Banks from many of their former restrictions and will allow them to serve a greater proportion of the credit needs of business and of consumers.

In short, so many things have been happening so fast that very few of us have had the time to really digest them. Sometimes it is necessary to sit back and try to put things in proper perspective as they relate to business in general, your particular industry, and your particular company.

Enough evidence has now come out in the Atlantic Acceptance and Prudential Finance enquiries to indicate that the transactions involved that caused the failures were, to say the least, highly questionable as to legality. It appears also safe to say that in spite of the name, Prudential Finance was a holding company and not a finance company in the true sense. Although it doesn't help the lenders who lost money in these two situations the amounts involved, although large in dollars and highly publicized, were a very small fraction of the total funds being handled in a most responsible way by finance companies.

The Carter Commission recommendations have already been subjected to extensive study and have produced many varied reactions. Any final legislation will have to take numerous things into consideration and it is really too early to tell what the exact changes will be and their overall effect on business

and the individual. The new securities and companies legislation is primarily aimed at full disclosure and some basic protections of stockholder rights. Properly administered it should not be at all oppressive and can only serve to enhance the image of reputable companies while at the same time making it more difficult for unscrupulous operators to hide behind the formerly accepted curtain of non-disclosure and thereby appear respectable. We are of the opinion that this shareholders' report more than complies with the reporting requirements of the new Ontario Securities Act. We also wish to note that this compliance required only minor changes to our last year's shareholders' report on which we received favorable comments from shareholders, investors, and the financial press.

Consumer protection legislation has been hurriedly enacted, and from where we sit, more as a result of a hue and cry from the legislators than from the consumer. We believe that a strict application of legislation enacted to date will produce some unwanted and unintended effects and that in order to eliminate a few bad practices the entire credit granting community has in effect been indicted. However, our industry has long been accustomed to working within the framework of various complex laws and we will do the same with the new ones. They can produce the desired results, however, only if they are uniformly applied to all credit grantors and only if the legislators and administrators promptly respond to the need for changes. If not the net result could be the loss by the consumer of some of the options he now enjoys and wants which came about through free competition for his patronage and not by legislative action.

The Bank Act changes were long overdue. Because of the type of transaction and/or the degree of risk involved it was not possible for the Chartered Banks to make certain loans, especially when they were operating under an unrealistic rate ceiling. Their entry into many new lending fields, especially to new and growing businesses needing working capital, should be of great benefit to the Canadian economy. The absurdity of some of the reasoning that was used to restrict them in the past should be evident when the first action taken by some of the banks with their new freedom was not a wholesale lending rate increase, but conversely a reduction in the prime lending rate and an increase in rates paid to savings depositors. This is just another illustration that the public benefits most from free competition between responsible business enterprises not hampered by restrictive legislation that prevents them from providing the broadest range of products and services.

There is no doubt our industry is going to feel more competition from the Chartered Banks, especially in high quality consumer credit and medium risk commercial loans. However, we originally made our place in the economy not by making bank loans, but by proving that time sales financing is sound and that a man's character and future earning capacity is acceptable collateral against which to extend credit. If all we intend to do is to make the same loans a bank will make then we lose our unique identity. Our task will be to continue to use our ingenuity in seeking out and intelligently serving credit needs not adequately served by others. In this way the total credit-granting industry, of which we are an integral and important part, will be better able to fulfill the total credit requirements of the Canadian economy. We should also seek out and find ways to cooperate with each other

and with the Chartered Banks in fulfilling these needs, especially in areas where more than one type of credit is required and a multiplicity of risks are involved. We are well situated to do this since we are not competing in other areas of the general banking business.

As for your company, this is the course we intend to follow. By intelligently exploring new "Frontiers" of credit we believe we will serve the economy in a better way, earn a more satisfactory return for our shareholders, and at the same time produce quality receivables for the security of our lenders. Our past history contains proof that we can produce increasing profits with increasing business and can successfully operate in areas not being exploited by others. The past two years show that we have ordered our affairs in such a way that even during periods of no growth we can earn a respectable return for our shareholders. To this extent and based on the figures available to us we believe we have outperformed our industry generally, and we have done it without endangering future earnings. This has taken great effort and loyalty on the part of our staff and the support and cooperation of our lenders and customers, to all of whom we express our sincere thanks.

On behalf of the Board of Directors

President

Review of Operations

RECEIVABLES

Outstanding retail receivables at March 31, 1967 were slightly greater than the receivables outstanding a year ago. The following is a breakdown of the outstanding retail notes receivable at March 31, 1967 and March 31, 1966 by type of business, and also the average amount per outstanding account in each category. Since most of the retail notes receivable include precomputed interest to the maturity of the loan, the Company's actual investment in each account is, on average, approximately 16% less than the amounts shown.

	March 31, 1967			March 31, 1966		
	Amount	Per Cent of Total	Average Amount Per Account	Amount	Per Cent of Total	Average Amount Per Account
Mobile homes	$ 6,558,153	58.08%	$4,641	$ 4,454,043	40.29%	$4,820
Direct cash loans	2,569,004	22.75	3,315	3,282,844	29.70	4,114
Automobiles	336,049	2.97	1,151	817,489	7.39	1,658
Home improvements	578,058	5.12	443	678,841	6.14	545
Appliances	110,122	.97	198	326,708	2.96	257
Equipment leases	331,559	2.94	1,571	349,735	3.17	1,249
Commercial loans	809,797	7.17	8,899	1,144,176	10.35	7,891
	$11,292,742	100.00%	$2,432	$11,053,836	100.00%	$2,142

Although additional business was available in sufficient quantity to again significantly increase outstanding receivables, the lack of additional credit facilities available to the Company made it impossible to increase the receivable level over that of last year. As is evident from the above breakdown the major change during the year was in the mix of the Company's portfolio. Since it was not possible to increase total receivables, new business emphasis was directed towards mobile homes and direct cash loans. These two areas offered the best yields combined with the soundest quality from a credit and loss standpoint. The Company is still active in the other areas, but at a much reduced level from prior years.

A diversified portfolio covering sales financing, direct cash loans, and commercial loans of various types will continue to be a long-term objective, but the emphasis at any particular time will be to direct available resources to business that then offers high quality and overall profitability. The combination of these objectives will probably result in changes in the makeup of the Company's portfolio over the years, but should help achieve the Company's ultimate goal of maximum profit consistent with reasonable risk.

All classes of loans are made only on a secured basis. The sales finance contracts are basically secured by the item the customer is purchasing, such as a mobile home, automobile, appliance, etc. In addition, the majority of this business is purchased with recourse to dealers, with the dealers' contingent obligations being further supported by dealers' reserves. Most of the direct cash loans are not only secured by chattel mortgages on personal property, but also by second mortgages on real estate. Equipment leases are secured by assignments of the leases and liens on the leased equipment. Commercial loans are secured by liens on real or personal property, by assignments of accounts and notes receivable, or by a combination thereof.

Except for mobile home contracts which, because they are for homes with correspondingly larger amounts involved, have a maximum maturity of seven years, almost all of the credit the Company extends is for five years or less. Direct cash loans with an original maturity of over three years are normally secured by real estate mortgages.

Generally the Company restricts total loans to any one customer to $25,000 or less. All large loans and all loans of an unusual nature are subjected to an extensive review by senior management prior to approval, and to special follow-up activity during the life of the loan. No loans are made to officers or Directors or to their families, associates, or affiliates.

The branch office in Willowdale, Ontario, handles all types of business. Presently, the branch offices in Montreal and Moncton engage only in sales financing in Quebec and the Maritimes, respectively. At March 31, 1967 the Montreal and Moncton offices were servicing retail notes receivable of $3,194,000 and $1,894,000, respectively, consisting almost entirely of mobile homes.

Wholesale notes receivable at March 31, 1967 and March 31, 1966 were $996,503 and $1,282,725, respectively, and consisted primarily of mobile homes held for sale by dealers who customarily sell their retail notes receivable to the Company.

Volume of purchases of retail instalment notes during the past year totalled $6,525,041. The following schedule details these purchases by type of receivable and original maturity.

	ORIGINAL MATURITY OF NOTES (IN THOUSANDS OF DOLLARS)							
	Two Years and Under	Two to Three Years	Three to Four Years	Four to Five Years	Five to Six Years	Six to Seven Years	Total	Per Cent of Total
Mobile homes	$ 162	$ 402	$ 231	$ 407	$ 258	$ 2,666	$ 4,126	63.23%
Direct cash loans	70	212	24	812			1,118	17.13
Automobiles	92	70					162	2.48
Home improvements	4	2	22	192			220	3.37
Appliances	13	15					28	.43
Equipment leases	14	6	32	116	6		174	2.67
Commercial loans	617	2		43	35		697	10.69
TOTAL	$ 972	$ 709	$ 309	$ 1,570	$ 299	$ 2,666	$ 6,525	100.00%
Per Cent of Total	14.90%	10.86%	4.73%	24.06%	4.59%	40.86%	100.00%	

Scheduled future liquidations of the Company's retail notes receivable outstanding at March 31, 1967 are as follows.

Scheduled liquidation during the year ending March 31:	Amount	Per Cent of Total
1968	$ 3,513,141	31.11%
1969	2,581,748	22.86
1970	1,960,371	17.36
1971	1,513,772	13.40
1972	918,229	8.13
1973	565,114	5.01
Subsequent to March 31, 1973	240,367	2.13%
TOTAL	$11,292,742	100.00%

Based on scheduled collections it would take 18 months' collections to repay the Company's short-term secured debt, after first deducting therefrom cash and wholesale notes receivable.

DELINQUENCIES AND LOSSES

The total unpaid balance of retail notes receivable outstanding at March 31, 1967 and March 31, 1966 with payments more than 60 days past due were as follows.

	March 31, 1967		March 31, 1966	
	Outstanding Amount	Per Cent to Total Retail	Outstanding Amount	Per Cent to Total Retail
Total unpaid balance of accounts with payments:				
61 to 90 days past due	$ 23,076	.20%	$ 77,609	.70%
Over 90 days past due	175,871	1.56	151,506	1.37
Total over 60 days past due	$198,947	1.76%	$229,115	2.07%

This was the second straight year in which there was a decrease in accounts over 60 days past due, which is a result of the Company's continued emphasis on new business quality plus speed and efficiency in collection follow-up.

These operating policies also resulted in other improvements. Included in the above accounts over 90 days delinquent were $54,645 at March 31, 1967 and $67,366 at March 31, 1966 representing accounts on which the Company has been forced to institute legal action but has not yet started receiving payments as a result of such legal action. Repossessions have also decreased and totalled $120,329 at March 31, 1967 compared with $171,624 at March 31, 1966. A large percentage of the repossessions include interest to maturity which means the Company's investment is a lesser amount. Of the repossessions on hand at March 31, 1967, $49,976 is due from dealers under recourse and repurchase agreements. The dealers involved are all in business and active with the Company, and the Company holds substantial dealer reserves in relation to the unpaid repossessions. No significant losses are expected from the liquidation of repossessions.

In order to properly liquidate accounts, it is sometimes necessary to alter the repayment terms of certain loans, primarily due to changed economic conditions on the part of the customer after the loan is made. These changes are a vital part of the finance business and can furnish additional income in the form of extra fees. The practice can be subject to abuse, however, and it is the Company's policy to grant such changes in terms only for good cause and only when the customer demonstrates a definite desire to maintain a good payment record.

The Company has continued its policy of charging off accounts which appeared doubtful of collection. Retail liquidations and losses for the past three years and since inception of the Company are as follows.

	Retail Liquidations	Retail Losses	Per Cent Losses to Liquidations
Year ended March 31:			
1967	$ 6,286,135	$ 84,858	1.35%
1966	6,333,985	90,162	1.42
1965	5,357,590	85,379	1.59
Total May 1, 1958 (inception) to March 31, 1967	24,811,048	289,645	1.17

Along with the continued emphasis on normal collection activity, the Company continued to concentrate on recoveries on accounts previously written off. Retail losses for the year ended March 31, 1967 are shown net of recoveries of $16,240 (16.06% of gross charge offs) on previously written off accounts. For the year ended March 31, 1966 the comparable figure was $11,774 (11.55% of gross charge offs). The Company has every reason to believe that recoveries will continue to increase in the future.

A review of accounts written off during the past two years revealed some interesting information. 65% of the gross charge offs came from credit extended on automobiles, appliances, home improvements and commercial loans. During the past two years the Company has greatly reduced its activity in these fields, and all credit that has been extended has been subjected to much more stringent control as to overall quality of credit.

The combination of the nature of accounts written off, plus improvements in delinquencies, charge offs, and recoveries would indicate that the percentage of net losses to liquidations will continue its favourable trend, and that the allowance for possible losses at March 31, 1967 of $128,362, which is 1.14% of outstanding retail notes receivable, is adequate to absorb any losses which may be incurred in the collection of the present receivables. In addition, dealers' credit balances of $384,872 at March 31, 1967 (3.41% of outstanding retail notes receivable) are also available to reduce future credit losses on retail accounts which were purchased with recourse to the dealer.

ACCOUNTING POLICIES

The Company grants credit on two different bases. In some cases the loans are made on an interest bearing basis. On other than interest bearing direct cash loans the interest is computed and billed to the customer monthly based on money in use. On this type of loan income is recorded on a monthly basis as it is earned. Interest on interest bearing direct cash loans is recorded as income in the month it is collected.

In most cases the charges for the life of the contract are precomputed and included in the face of the note. The difference between the amounts advanced by the Company and the total amounts to be repaid by the customers is recorded as unearned finance charges. The Company does not record any earnings in the month a contract is acquired as representing an "acquisition cost", but takes the finance charges into income over the terms of the respective notes based on the declining amounts outstanding. Mechanically, this is accomplished by applying the sum-of-the-digits (sometimes referred to as the "rule of 78's") amortization method to the finance charges.

This overall policy results in the realization of no income at the time a contract is purchased and has resulted in a very substantial unearned finance charge account in relation to outstanding retail notes receivable with precomputed interest, as is shown below.

	March 31, 1967	March 31, 1966
Total retail notes receivable	$11,292,742	$11,053,836
Less interest bearing notes receivable:		
Direct cash loans	$ 685,883	
Other loans	478,209	$ 452,571
	$ 1,164,092	$ 452,571
Retail notes receivable with precomputed interest	$10,128,650	$10,601,265
Unearned finance charges	$ 1,805,029	$ 1,848,510
Percentage of unearned finance charges to notes receivable with precomputed interest	17.82%	17.44%

These unearned finance charges represent future gross income and will be recorded as earnings over the remaining terms of the outstanding notes receivable.

Extension fees and other miscellaneous charges on retail notes receivable are recorded as income in the month they are collected. Interest on wholesale notes receivable is accrued each month based on money in use.

All expenses are charged immediately to income as they are incurred except for normal deferred items such as prepaid interest, insurance and taxes and any discounts and expenses in connection with long-term debt issues which are charged to earnings over the terms of the respective debt issues involved.

FINANCIAL

During the year ended March 31, 1967 no new credit was extended to the Company, either long term or short term. The following table shows the composition of the Company's debt and capital structure at March 31, 1967 and at March 31, 1966.

	MARCH 31	
	1967	1966
Secured indebtedness to banks	$ 5,691,001	$ 5,873,000
Capital funds:		
Subordinated debt	$ 3,007,250	$ 3,054,250
Shareholders' equity:		
Preference	$ 384,250	$ 384,250
Common	960,712	842,881
TOTAL SHAREHOLDERS' EQUITY	$ 1,344,962	$ 1,227,131
TOTAL CAPITAL FUNDS	$ 4,352,212	$ 4,281,381
TOTAL DEBT AND CAPITAL	$10,043,213	$10,154,381

The only changes during the year besides the normal fluctuations in bank indebtedness were retained earnings and the required sinking fund retirement of $47,000 of 6¾% Subordinated Sinking Fund Debentures Series A. The Company's only short-term indebtedness is to its two banks under established lines of credit totalling $6,000,000, and the Company does not intend to borrow any funds in the short-term market except from banks or unless such borrowings are fully covered by unused bank lines of credit.

The Company, in conjunction with its investment bankers, is continuing to explore ways and means of obtaining new long-term funds. Although the apparent easing of the money markets should be of help, no definite commitments have as yet been received.

EARNINGS

Net earnings for the year ended March 31, 1967 were $142,807, a slight increase over the net earnings of $138,925 for the year ended March 31, 1966. Net earnings per common share, based on average shares outstanding and after preference dividends, were $.62 for the year ended March 31, 1967 and $.61 for the year ended March 31, 1966. The distribution of gross income for the last two years is as follows.

	YEAR ENDED MARCH 31			
	1967		1966	
	Amount	Per Cent of Gross Income	Amount	Per Cent of Gross Income
GROSS INCOME	$1,322,683	100.00%	$1,205,892	100.00%
COSTS AND EXPENSES:				
Cost of borrowings	$ 599,124	45.29%	$ 523,287	43.39%
Salaries and wages	158,996	12.02	144,229	11.96
Other general and administrative expenses	188,979	14.29	157,504	13.06
Provision for possible losses	91,777	6.94	112,947	9.37
Taxes on income	141,000	10.66	129,000	10.70
NET EARNINGS	$ 142,807	10.80%	$ 138,925	11.52%

Basically all operating expenses, except provision for possible losses, increased slightly over last year. The prime reason was that the average level of receivables was higher during the year ended March 31, 1967. As to the increase in cost of borrowings, approximately 60% of the increase was due to an increased level of receivables and 40% was due to higher average money costs. Provision for possible losses is directly related to volume of new business, which decreased, rather than to the level of outstanding receivables.

Some reductions in operating expenses may be possible, but maximum efficiency of operations and use of resources will not be achieved until the Company's former growth pattern has been restored through the acquisition of more funds.

FRONTIER ACCEPTANCE Corporation Limited

AND ITS WHOLLY OWNED SUBSIDIARIES

MARCH 31, 1967 (with comparative figures for March 31, 1966)

CONSOLIDATED BALANCE SHEET

ASSETS

	1967	1966
Cash	$ 48,247	$ 86,554
Notes receivable:		
Retail (Note 1)	$11,292,742	$11,053,836
Wholesale	996,503	1,282,725
	$12,289,245	$12,336,561
Less:		
Unearned finance charges	$ 1,805,029	$ 1,848,510
Allowance for possible losses	128,362	121,443
	$ 1,933,391	$ 1,969,953
NOTES RECEIVABLE — NET	$10,355,854	$10,366,608
Accounts receivable	48,696	29,307
Prepaid expenses	6,679	9,290
Furniture, equipment and leasehold improvements — at cost	$ 34,654	$ 30,359
Less accumulated depreciation and amortization	18,648	13,285
	$ 16,006	$ 17,074
Unamortized debt discount and expense	137,682	159,298
	$10,613,164	$10,668,131

Approved on behalf of the Board:

L. W. OEHRING, JR., Director.

J. W. ADAMS, Director.

LIABILITIES AND SHAREHOLDERS' EQUITY

		1967	1966
Short-term notes payable to banks — secured by assignment of certain notes receivable		$ 5,691,001	$ 5,873,000
Accounts payable and accrued liabilities		124,656	134,936
Income and other taxes payable		60,423	65,124
Dealers' credit balances		384,872	313,690
Capital funds:			
Subordinated debt (Note 2):			
$6\frac{7}{8}$% Senior Subordinated Notes		$ 2,151,250	$ 2,151,250
$6\frac{3}{4}$% Subordinated Sinking Fund Debentures Series A		856,000	903,000
TOTAL SUBORDINATED DEBT		$ 3,007,250	$ 3,054,250
Shareholders' equity:			
Capital stock (Note 3):			
Authorized:			
35,370 first preference shares with a par value of $25 each, issuable in series	$884,250		
1,000,000 common shares without par value	—		
Issued:			
15,370 $6\frac{1}{2}$% cumulative redeemable convertible first preference shares Series A		$ 384,250	$ 384,250
188,685 common shares — stated value		512,963	512,963
		$ 897,213	$ 897,213
Retained earnings (Note 4)		447,749	329,918
TOTAL SHAREHOLDERS' EQUITY		$ 1,344,962	$ 1,227,131
TOTAL CAPITAL FUNDS		$ 4,352,212	$ 4,281,381
		$10,613,164	$10,668,131

See accompanying Notes to Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — **Retail Notes Receivable**

Of the retail notes receivable outstanding at March 31, 1967, instalments aggregating $3,513,141 are due within one year.

NOTE 2 — **Subordinated Debt**

The 6⅞% Senior Subordinated Notes are payable, both as to principal and interest, in U.S. funds. The Notes are for $2,000,000 (U.S.) and are shown at the rate of exchange on December 16, 1965, the date of issuance. The Notes are due December 15, 1977 and the Company has covenanted to establish a sinking fund to provide for the retirement of $200,000 (U.S.) principal amount of the Notes on December 15, in each of the years 1968 to 1976, both inclusive. The Notes are presently redeemable, otherwise than out of sinking fund monies, in whole or in part at a premium of 4.6% of such principal amount if redeemed on or before December 15, 1967 with the premium thereafter decreasing rateably each year to zero if redeemed after December 16, 1976.

The 6¾% Subordinated Sinking Fund Debentures Series A are due June 15, 1979. The Company has covenanted to establish a sinking fund to provide for the retirement of $50,000 principal amount of the Debentures on June 15, in each of the years 1965 to 1974, both inclusive, and $100,000 principal amount of the Debentures on June 15, in each of the years 1975 to 1978, both inclusive. The Debentures are presently redeemable, otherwise than out of sinking fund monies, in whole or in part at a premium of 4.25% of such principal amount if redeemed on or before June 15, 1967 with the premium thereafter decreasing rateably each year to zero if redeemed after June 15, 1978.

NOTE 3 — **Capital Stock**

The 6½% cumulative redeemable convertible first preference shares Series A are convertible, on or before October 31, 1970, into common shares at the rate of 4 common shares for each first preference share Series A on or before October 31, 1967 and thereafter at a declining rate. The first preference shares Series A are redeemable at a price of $26.00 a share. The Company is required to enter on its books to the credit of a purchase fund certain amounts to be used for the purchase of first preference shares Series A, which obligation can be anticipated by the redemption or conversion of first preference shares Series A. At March 31, 1967 no amounts were required to be set aside for such purchase fund.

Of the authorized and unissued common shares, 61,480 shares are reserved for conversion of the first preference shares Series A; 14,865 shares are reserved for share purchase warrants (issued in connection with the 6¾% Subordinated Sinking Fund Debentures Series A) exercisable at $8.50 a share on or before June 15, 1967 and increasing to $12.50 per share on or before expiration date June 15, 1970; 40,000 shares are reserved for share purchase warrants (issued in connection with the 6⅞% Senior Subordinated Notes) exercisable at $6.25 a share on or before expiration date December 15, 1977; and 14,900 shares are reserved for executive stock options (issued to three officers) exercisable at $6.25 a share. One option is for 10,000 shares exercisable at the rate of 2,000 shares per year and expires on February 28, 1975; one option is for 3,500 shares exercisable at the rate of 500 shares per year and expires on September 14, 1971; and one option is for 1,400 shares exercisable at the rate of 200 shares a year and expires on June 30, 1972. All options may be exercised on a cumulative basis.

NOTE 4 — **Retained Earnings**

The Company's various loan agreements and its Letters Patent relating to the first preference shares Series A contain provisions relating to the payment of dividends on common shares. Under the most restrictive of these provisions no amount of retained earnings was available at March 31, 1967 for the payment of dividends on common shares.

NOTE 5 — **Compensation of Directors and Senior Officers**

Salaries and wages and other general and administrative expenses include aggregate direct remuneration paid or payable to Directors and senior officers of $72,271 (1966 — $64,406).

AUDITORS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS
PRUDENTIAL BUILDING
KING AND YONGE STREETS
TORONTO 1, ONTARIO

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Frontier Acceptance Corporation Limited and its wholly owned subsidiaries as of March 31, 1967 and the consolidated statements of earnings, retained earnings and source and disposition of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings and source and disposition of funds present fairly the financial position of the companies at March 31, 1967, the results of their operations and the sources and disposition of their funds for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Toronto, Ontario
May 8, 1967

Chartered Accountants

NINE YEAR SUMMARY

	1967
Operating results for the year:	
Finance charges, interest and fees earned	$ 1,322,683
Salaries and wages	158,996
Other general and administrative expenses	188,979
Provision for possible losses	91,777
Cost of borrowings	599,124
Times cost of borrowings earned	1.47
Taxes on income	141,000
Net earnings	142,807
Preference dividends	24,976
Times preference dividends earned	5.72
Net earnings for common shares	117,831
Net earnings per common share based on average shares outstanding	.62
Financial position at the end of the year:	
Notes receivable:	
Retail	$11,292,742
Wholesale	996,503
TOTAL NOTES RECEIVABLE	12,289,245
Unearned finance charges	1,805,029
Percent to retail notes receivable with precomputed interest	17.82%
Allowance for possible losses	128,362
Percent to retail notes receivable	1.14%
Short-term notes payable to banks — secured	5,691,001
Asset coverage per $1,000 of secured debt, exclusive of properties and deferred charges	1,838
Capital funds:	
Subordinated debt	3,007,250
Shareholders' equity:	
Preference stock	384,250
Common shareholders' equity	960,712
TOTAL SHAREHOLDERS' EQUITY	1,344,962
TOTAL CAPITAL FUNDS	4,352,212
Number of common shares outstanding	188,685
Book value per common share	5.09

1966	1965	1964	1963	1962	1961	1960	1959
$ 1,205,892	$ 900,129	$ 601,789	$ 449,550	$ 173,323	$ 93,678	$ 66,667	$ 15,001
144,229	102,124	73,624	44,563	27,226	13,440	11,256	7,400
157,504	123,569	91,352	76,084	42,018	15,168	11,433	12,357
112,947	110,788	59,372	37,550	4,491	1,082		
523,287	350,837	212,602	158,764	48,513	32,723	22,037	3,500
1.51	1.61	1.78	1.84	2.05	1.96	2.00	
129,000	103,219	73,900	57,800	8,054	8,575	3,200	
138,925	109,592	90,939	74,789	43,021	22,690	18,741	(8,246)
29,387	32,500	8,200					
4.73	3.37	11.90					
109,538	77,092	82,739	74,789	43,021	22,690	18,741	(8,246)
.61	.60	.70	.64	.37	.38	.31	(.14)

$11,053,836	$8,979,882	$5,978,292	$4,100,704	$2,174,619	$ 779,526	$ 699,584	$ 223,754
1,282,725	903,540	534,284	305,886	149,582			
12,336,561	9,883,422	6,512,576	4,406,590	2,324,201	779,526	699,584	223,754
1,848,510	1,440,102	969,187	746,216	399,914	93,000	90,516	25,839
17.44%	16.65%	16.21%	18.20%	18.39%	11.93%	12.94%	11.55%
121,443	98,658	73,249	30,088	12,917	1,086		
1.09%	1.10%	1.23%	.73%	.59%	.14%		
5,873,000	5,941,623	3,968,768	2,530,951	1,258,250	602,822	558,139	175,162
1,786	1,411	1,384	1,436	1,557	1,137	1,092	1,131
3,054,250	1,000,000	540,000	637,500	420,000			
384,250	475,000	500,000	28,800	28,800	28,800	28,800	28,800
842,881	652,768	195,910	159,164	94,344	34,385	11,695	(7,046)
1,227,131	1,127,768	695,910	187,964	123,144	63,185	40,495	21,754
4,281,381	2,127,768	1,235,910	825,464	543,144	63,185	40,495	21,754
188,685	172,505	117,400	117,400	117,400	60,000	60,000	60,000
4.47	3.78	1.67	1.36	.80	.57	.19	

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SEMI-ANNUAL REPORT

SEPTEMBER 30

1967

FRONTIER ACCEPTANCE Corporation Limited

FRONTIER ACCEPTANCE Corporation Limited

DIRECTORS:

JOHN W. ADAMS
Vice-President, Finance and Treasurer;
Emco Limited, London, Ontario

C. NORMAN CHAPMAN
Executive Vice-President;
Emco Limited, London, Ontario

MURRAY J. HOWE
Partner; J. H. Crang & Co.,
Investment Dealers, Toronto, Ontario

CHARLES E. ISARD
Director; Isard, Robertson, Easson Co. Limited,
Investment Dealers, London, Ontario

PETER J. IVEY
President; Emco Limited,
London, Ontario

LYMAN W. OEHRING, JR.
President; Frontier Acceptance Corporation Limited,
Willowdale, Ontario

FRANK T. SHERK
Director of Various Corporations;
Toronto, Ontario

DAVID B. WELDON
President; Midland-Osler Securities Limited,
Investment Dealers, London, Ontario

OFFICERS:

LYMAN W. OEHRING, JR. — President
C. NORMAN CHAPMAN — Vice-President
HOWARD L. KIRBY — Vice-President
JOHN A. PARK — Vice-President
ROBERT W. STEVENS — Secretary
WILLIAM H. BREMNER — Controller and Assistant Secretary

LEGAL COUNSEL: BLAKE, CASSELS & GRAYDON, Toronto, Ontario

AUDITORS: PEAT, MARWICK, MITCHELL & CO., Toronto, Ontario

BANKERS: BANK OF MONTREAL, Toronto, Ontario
THE ROYAL BANK OF CANADA, Toronto, Ontario

TRANSFER AGENT: THE ROYAL TRUST COMPANY, Toronto, Ontario

SECURITIES LISTED: TORONTO STOCK EXCHANGE
$6\frac{1}{2}\%$ cumulative redeemable convertible first preference shares Series A
Common shares

TRUSTEE: MONTREAL TRUST COMPANY, Toronto, Ontario
$6\frac{3}{4}\%$ Subordinated Sinking Fund Debentures Series A

HEAD OFFICE: 5385 YONGE STREET, Willowdale (Metropolitan Toronto), Ontario

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BRANCHES: 5385 YONGE STREET, Willowdale, Ontario
1111 MAIN STREET, Moncton, New Brunswick
110 PLACE CREMAZIE WEST, Montreal, Quebec

November 13, 1967

TO OUR SHAREHOLDERS:

Net earnings for the six months ended September 30, 1967 were $65,320 compared with $63,871 for the six months ended September 30, 1966. This represents earnings of $.28 and $.27 per common share for the respective periods, after deducting preference dividends.

In spite of the fact that much of the emotionalism concerning finance companies has now died down, the continued weakness of the bond markets is still making it very difficult for small and medium-sized companies to raise long-term funds. The large companies do have access to new funds, but the rates being paid are extremely high. Under these money-market conditions we have continued to put our emphasis on maximum quality and profitability of our existing resources.

A comparison of the audited financial statements for the first six months of this year with those of the same period last year shows a slight increase in gross income. At the same time we have been able to hold total salaries and wages in line while actually decreasing other operating expenses.

In addition to a modest improvement in operating results, we have continued to improve our balance sheet. Unearned finance charges are now 18.81% of retail receivables with precomputed interest. Total unpaid balances of accounts with payments more than 60 days past due have decreased to 1.21% of total retail receivables. In the last six months repossessions have decreased $40,000 and now total only $80,000. Net retail losses as a percentage of retail liquidations were 1.25% compared with 1.35% for all of last year.

We are pleased to report to you that your company's last Annual Report for the year ended March 31, 1967 was awarded first place in the Financial and Real Estate category of the annual-report contest which is sponsored each year by The Financial Post. We are very proud of this achievement, and especially so since we were the only "smaller" company to be selected for first place in any of the seven categories, and one of only two "smaller" companies selected as one of the three winners in any of the seven categories.

Although your management and your Directors are anxious to return to a pattern of sound, steady growth, we believe we are following operating policies appropriate to today's circumstances. The balance we have achieved will continue to produce profits and at the same time will keep us in readiness to take advantage of additional funds when they become available to us.

On behalf of the Board of Directors

President

FRONTIER ACCEPTANCE CORPORATION LIMITED
AND ITS WHOLLY OWNED SUBSIDIARIES

Consolidated Balance Sheet — September 30, 1967
(with comparative figures for September 30, 1966)

ASSETS

	1967	1966
Cash	$ 59,716	$ 47,930
Notes receivable:		
Retail (Note 1)	$11,800,203	$12,015,954
Wholesale	740,548	545,749
	$12,540,751	$12,561,703
Less:		
Unearned finance charges	$ 1,914,664	$ 2,019,292
Allowance for possible losses	134,298	137,048
	$ 2,048,962	$ 2,156,340
NOTES RECEIVABLE — NET	$10,491,789	$10,405,363
Accounts receivable	38,842	70,592
Prepaid expenses	5,921	8,081
Furniture, equipment and leasehold improvements — at cost	$ 36,858	$ 34,613
Less accumulated depreciation and amortization	20,855	16,580
	$ 16,003	$ 18,033
Unamortized debt discount and expense	126,931	148,467
	$10,739,202	$10,698,466

Approved on behalf of the Board:
L. W. OEHRING, JR., Director.
J. W. ADAMS, Director.

LIABILITIES AND SHAREHOLDERS' EQUITY

		1967	1966
Short-term notes payable to banks — secured by assignment of certain notes receivable		$ 5,760,000	$ 5,813,003
Accounts payable and accrued liabilities		125,324	144,732
Income and other taxes payable		32,427	37,372
Dealers' credit balances		427,215	373,403
Capital funds:			
Subordinated debt (Note 2):			
$6\frac{7}{8}$% Senior Subordinated Notes		$ 2,151,250	$ 2,151,250
$6\frac{3}{4}$% Subordinated Sinking Fund Debentures Series A		845,000	900,000
TOTAL SUBORDINATED DEBT		$ 2,996,250	$ 3,051,250
Shareholders' equity:			
Capital Stock (Note 3):			
Authorized:			
35,370 first preference shares with a par value of $25 each, issuable in series	$884,250		
1,000,000 common shares without par value	—		
Issued:			
15,370 $6\frac{1}{2}$% cumulative redeemable convertible first preference shares Series A, with a par value of $25 each		$ 384,250	$ 384,250
188,685 common shares — stated value		512,963	512,963
		$ 897,213	$ 897,213
Retained earnings (Note 4)		500,773	381,493
TOTAL SHAREHOLDERS' EQUITY		$ 1,397,986	$ 1,278,706
TOTAL CAPITAL FUNDS		$ 4,394,236	$ 4,329,956
		$10,739,202	$10,698,466

See accompanying notes to financial statements

FRONTIER ACCEPTANCE CORPORATION LIMITED
AND ITS WHOLLY OWNED SUBSIDIARIES

Six Months Ended September 30, 1967
(with comparative figures for the six months ended September 30, 1966)

CONSOLIDATED STATEMENT OF EARNINGS

	1967	1966
Income — finance charges, interest and fees earned	$ 667,716	$ 662,937
Deduct:		
Salaries and wages	$ 87,557	$ 85,410
Other general and administrative expenses	98,341	103,985
Provision for possible losses	47,137	53,740
	$ 233,035	$ 243,135
EARNINGS BEFORE COST OF BORROWINGS AND TAXES ON INCOME	$ 434,681	$ 419,802
Cost of borrowings, principally interest	310,361	297,931
EARNINGS BEFORE TAXES ON INCOME	$ 124,320	$ 121,871
Taxes on income	59,000	58,000
NET EARNINGS	$ 65,320	$ 63,871
Net earnings per common share, based on average shares outstanding and after preference dividends	$.28	$.27

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1967	1966
Balance at beginning of period	$ 447,749	$ 329,918
Add net earnings for the period	65,320	63,871
	$ 513,069	$ 393,789
Deduct dividends on 6½% cumulative redeemable convertible first preference shares Series A	12,296	12,296
Balance at end of period	$ 500,773	$ 381,493

See accompanying notes to financial statements

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

	1967	1966
Funds were provided by:		
Net earnings for the period	$ 65,320	$ 63,871
Add charges to earnings not requiring cash expenditure:		
Depreciation and amortization of furniture, equipment and leasehold improvements	2,136	2,042
Amortization of debt discount and expense, less tax reductions thereon	10,751	10,831
TOTAL FUNDS PROVIDED — FROM EARNINGS	$ 78,207	$ 76,744
Funds were used for:		
Cash dividends on 6½% cumulative redeemable convertible first preference shares Series A	$ 12,296	$ 12,296
Retirement of long-term debt	11,000	3,000
Purchase of furniture, equipment and leasehold improvements	2,133	3,001
TOTAL FUNDS USED	$ 25,429	$ 18,297
INCREASE IN WORKING CAPITAL	$ 52,778	$ 58,447

WORKING CAPITAL CHANGES

	September 30 1967	March 31 1967	Increase (Decrease)
Cash	$ 59,716	$ 48,247	$ 11,469
Notes receivable — net	10,491,789	10,355,854	135,935
Accounts receivable	38,842	48,696	(9,854)
Prepaid expenses	5,921	6,679	(758)
	$10,596,268	$10,459,476	$ 136,792
Deduct:			
Short-term notes payable to banks	$ 5,760,000	$ 5,691,001	$ 68,999
Accounts payable and accrued liabilities	125,324	124,656	668
Income and other taxes payable	32,427	60,423	(27,996)
Dealers' credit balances	427,215	384,872	42,343
	$ 6,344,966	$ 6,260,952	$ 84,014
WORKING CAPITAL	$ 4,251,302	$ 4,198,524	$ 52,778

See accompanying notes to financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended September 30, 1967

NOTE 1 — Retail Notes Receivable

Of the retail notes receivable outstanding at September 30, 1967, instalments aggregating $3,720,926 are due within one year.

NOTE 2 — Subordinated Debt

The 6⅞% Senior Subordinated Notes are payable, both as to principal and interest, in U.S. funds. The Notes are for $2,000,000 (U.S.) and are shown at the rate of exchange on December 16, 1965, the date of issuance. The Notes are due December 15, 1977 and the Company has covenanted to establish a sinking fund to provide for the retirement of $200,000 (U.S.) principal amount of the Notes on December 15, in each of the years 1968 to 1976, both inclusive. The Notes are presently redeemable, otherwise than out of sinking fund monies, in whole or in part at a premium of 4.6% of such principal amount if redeemed on or before December 15, 1967 with the premium thereafter decreasing ratably each year to zero if redeemed after December 16, 1976.

The 6¾% Subordinated Sinking Fund Debentures Series A are due June 15, 1979. The Company has covenanted to establish a sinking fund to provide for the retirement of $50,000 principal amount of the Debentures on June 15, in each of the years 1965 to 1974, both inclusive, and $100,000 principal amount of the Debentures on June 15, in each of the years 1975 to 1978, both inclusive. The Debentures are presently redeemable, otherwise than out of sinking fund monies, in whole or in part at a premium of 3.875% of such principal amount if redeemed on or before June 15, 1968 with the premium thereafter decreasing ratably each year to zero if redeemed after June 15, 1978.

NOTE 3 — Capital Stock

The 6½% cumulative redeemable convertible first preference shares Series A are convertible, on or before October 31, 1970, into common shares at the rate of 3 common shares for each first preference share Series A on or before October 31, 1969 and thereafter at a declining rate. The first preference shares Series A are redeemable at a price of $26.00 a share. The Company is required to enter on its books to the credit of a purchase fund certain amounts to be used for the purchase of first preference shares Series A, which obligation can be anticipated by the redemption or conversion of first preference shares Series A. At September 30, 1967 no amounts were required to be set aside for such purchase fund.

Of the authorized and unissued common shares, 46,110 shares are reserved for conversion of the first preference shares Series A; 14,865 shares are reserved for share purchase warrants (issued in connection with the 6¾% Subordinated Sinking Fund Debentures Series A) exercisable at $10.00 a share on or before December 15, 1968 and increasing to $12.50 per share on or before expiration date June 15, 1970; 40,000 shares are reserved for share purchase warrants (issued in connection with the 6⅞% Senior Subordinated Notes) exercisable at $6.25 a share on or before expiration date December 15, 1977; and 14,900 shares are reserved for executive stock options (issued to three officers) exercisable at $6.25 a share. One option is for 10,000 shares exercisable at the rate of 2,000 shares per year and expires on February 28, 1975; one option is for 3,500 shares exercisable at the rate of 500 shares per year and expires on September 14, 1971; and one option is for 1,400 shares exercisable at the rate of 200 shares a year and expires on June 30, 1972. All options may be exercised on a cumulative basis.

NOTE 4 — Retained Earnings

The Company's various loan agreements and its Letters Patent relating to the first preference shares Series A contain provisions relating to the payment of dividends on common shares. Under the most restrictive of these provisions no amount of retained earnings was available at September 30, 1967 for the payment of dividends on common shares.

NOTE 5 — Compensation of Directors and Senior Officers

Salaries and wages and other general and administrative expenses include aggregate direct remuneration paid or payable to Directors and senior officers of $40,726 (1966 — $35,603).

ACCOUNTANTS' REPORT

The Board of Directors
Frontier Acceptance Corporation Limited

We have examined the consolidated balance sheet of Frontier Acceptance Corporation Limited and its wholly owned subsidiaries as of September 30, 1967 and the consolidated statements of earnings, retained earnings and source and disposition of funds for the six months ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings and source and disposition of funds present fairly the financial position of the companies at September 30, 1967, the results of their operations and the sources and disposition of their funds for the six months ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
November 13, 1967.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.